STATE EMPLOYEE COMPENSATION INTERIM COMMITTEE

JFAC Room, Statehouse, Boise, Idaho
July 25, 2005

MINUTES
(Condensed)

The meeting was called to order at 1:07 p.m. on July 25, 2005, by Co-chair Representative Bob Schaefer. Other committee members present were: Co-chair Senator John Andreason, Senators Dick Compton, Joe Stegner, John McGee, Bert Marley, Kate Kelly and Representatives Larry Bradford, Ken Roberts, Rich Wills, Anne Pasley-Stuart and Shirley Ringo. Senator Michael Jorgenson and Representative Jana Kemp were absent and excused. Staff members present were Matt Freeman and Charmi Arregui.

Others present on July 25, 2005 included: Ann Heilman and Jay Anderson, Division of Human Resources; Pam Ahrens, Rick Thompson and Ted Roper, Department of Administration; Alan Winkle, PERSI; Andrew Hanhardt and Amanda Brown, Service Employees International Union (SEIU); Jane Kinn Buser and Mark Dunham, Boise State University; Tim O'Leary, ISP; Dona VanTrease and Vickie Burnet, Idaho Public Employees' Association; Megann Holmes, Congressman "Butch" Otter's office; Brandon Woolf, State Controller's Office, EIS; Judie Wright, DFM; and Kent Kunz, Office of the Governor.

Co-chair Representative Schaefer opened the meeting by stating that the meeting would be a briefing session to figure out how to pay state employees appropriately and fairly, exploring where the system works and where it does not work. **Co-chair Senator Andreason** added that this committee has a very difficult and important task ahead and expressed his appreciation to all the members of the committee for taking on this task, since it is vital to the employees of the state of Idaho that the committee does this job right.

Matt Freeman, Senior Budget & Policy Analyst, Legislative Services Office was introduced to review the charge to the committee (HCR22). **Mr. Freeman said** that HCR 22 created this interim committee to undertake and complete the study of the state employee compensation and benefits system and report its findings and recommendations to the legislature.

Mr. Freeman said Idaho's compensation law is merit based; in other words, a state employee's advancement in pay must be based solely on performance. The state's compensation system does not provide for longevity or seniority, or cost of living adjustments; furthermore, state law provides that it is "the intent of the legislature that an employee may expect to advance in their salary range to the labor market average for the pay grade assigned to a classification." In addition, the state uses the Hay Plan, which is a method of measuring jobs in order to establish a uniform and consistent pay system.

Ms. Heilman, Administrator, Division of Human Resources (DHR) began by giving an overview of the state compensation statutes. **Ms. Heilman** commented that the statutes that the committee will consider mostly revolve around the classified personnel system, but also impact the state's nonclassified workforce, including the higher education system. Idaho law provides that nonclassified employees (employees outside the state personnel system) should be treated as similarly as possible to the classified, and that is why the committee=s decisions will impact that group as well.

Ms. Heilman continued with some history prior to implementation of the Hay System, pointing out that agencies had the discretion in the early 1970=s of what kind of job title or job classification they would give a particular job and slot in a salary schedule. Each agency determined the pay for each job. **Ms. Heilman** discussed 20 compensation schedule grades and ten steps from 1974; basically employees got a 5% step increase every year on the anniversary date of their hire. The strength of this system was that funding was built in automatically, but it had very little relationship to market. In 1975 the legislature brought in Hay and Associates to develop a system to pay jobs in a fair way based on what the jobs required, not the person in them or the department they work for, which would provide internal equity. This began a system of longevity pay to reward seniority, so every five years an employee got a 2.5% raise up to a total of 20 years with the state. In July, 1977, the Hay System went into effect, and there was much greater internal equity and salary surveys began to be used. The difficulty was that this was very labor intensive and time consuming; the legislature had built themselves into the approval process, so if one wanted to change the points given to a job, it could take a full legislative session for that to occur. In July, 1979, the legislature eliminated the automatic step increases and said that state employees= salary compensation would increase based now solely on performance, not on longevity. Jobs were assigned a pay range based on the relative value of the job and employees were assessed as to their performance. The difficulty of changing to pay-for-performance, obviously, was that if people move up based on performance then an increase must be delivered. In 1993, an advisory panel looked at the system and established a new pay schedule with pay grades with a minimum hourly rate, a maximum hourly rate and the policy rate which was the mid-point. The weakness is that now there is absolutely no mechanism that forces increased funding for the salary system. In the 1999 session, the legislature created the Division of Human Resources with an administrator, which was charged to look at the compensation system, do a better job of understanding market, and make better recommendations for progress in a total compensation package.

Ms. Heilman then provided an overview of state compensation statutes:

Idaho Code '67-5302 defines many operable terms including Afull-time employee@ and Aholiday@. **Ms. Heilman** noted that the definition of holiday could be clarified in how many hours are exempted from work. Idaho Code '67-5304 limits the authority of the Division of Financial Management to making sure that the agencies have enough money in their budgets, but that they are not required to approve employees= pay raise increases. Idaho Code '67-5309 enumerates rulemaking power and authority of the Division of Human Resources and discusses relative labor markets and benchmark job classifications to enable comparison of all the diverse jobs in the state. This section also provides for a 5% pay shift differential, so if an employee works nights or weekends, an employee is eligible for this flat increase which is found to have little relationship to the market. Idaho Code '67-5309A covers two personnel benefits issues: (1) that all classified employees of like classification and pay grade allocation shall be treated equally with reference to personnel benefits; and (2) DHR shall conduct an annual benefit survey. Idaho Code '67-5309B provides that the DHR administrator shall determine the relative worth of each job classification. Idaho Code '67-5309C sets forth the Hay pay grade schedule and provides that: "It is hereby declared to be the intent of the legislature that an employee may expect to advance in the salary range to the labor market average rate for the pay grade assigned to a classification."   The rest of the code section talks about the pay-for-performance indicators and the requirement for a performance evaluation before anyone is given a pay increase. The statute discusses temporary pay grade increases to address market issues. Next, this section authorizes bonuses limited to $1,000 and based upon excellent performance, and a bonus for suggestions that result in taxpayer savings or greater efficiencies. Idaho Code '67-5326 provides it is "declared to be the policy of the legislature ... that all classified employees of like classification and pay grade allocation shall be treated equally with reference to hours of employment, holidays, and vacation leave." Idaho Code '67-5328 provides for appointing authority which refers to the person who determines if the employee shall receive cash compensation or compensatory time off and this is an option available only in the public sector. Idaho Code '67-5329 discusses overtime, who is eligible and who is not.

Ms. Heilman discussed Idaho Code '67-5330 (rate of overtime compensation); Idaho Code '67-5331 (overtime being paid, if in cash, at the end of the next pay period); Idaho Code '67-5332 (credited state service as it relates to determining eligibility for different levels of benefits, especially vacation leave, sick leave and retirement); Idaho Code '67-5333 (sick leave provided for employees); Idaho Code '67-5334 (vacation time and how that is figured); Idaho Code '67-5335 (caps on the amount of vacation time employees can earn); Idaho Code '67-5337 (cash for unused vacation); Idaho Code '67-5339 (cash for unused sick leave which can be used by retirees towards premiums for group insurance); Idaho Code '67-5340 (police officers disabled due to an injury arising out of and in the course of duty can be put on a leave of absence without loss of salary and benefits for up to one year); and Idaho Code '67-5342 (no severance pay for state employees).

Representative Pasley-Stuart asked about executive, administrative and professional employees being allowed compensatory time. **Ms. Heilman** gave the history and rationale behind the provision.

In response to a question from **Representative Ringo**, **Ms. Heilman** said she would provide information on what the Idaho Personnel Commission=s recommendations were for the pay line and the salary increases, what the Governor=s recommendation was, and then what happened with that.

In response to a question from **Senator Compton**, **Ms. Heilman** responded that under Idaho Code '67-5309C(a), Grade J is typically where time and one-half (1 **2**) compensatory time would be paid, but it really is dependent upon the content of the job and what the responsibilities are and who is required to have overtime or compensatory time paid. **Senator Compton** commented that classified positions are in the range of $41,000 to $120,000 per year and the same rule of compensated compensatory time would apply wherever an employees falls within that range. He thought it was bizarre that there might be an employee making $80,000 to $90,000 per year being compensated for overtime, and thinks that overtime is part of having one of those positions.

Representative Roberts asked about the source of funds for merit increases being paid. **Mr. Freeman** responded that he would be covering the issue of salary the next day.

Senator Stegner inquired about definitions of classified, exempt and nonclassified employees, commenting that it seemed to him that some people tend to commingle the terms "exempt" and "nonclassified." **Ms. Heilman** said that the word "exempt" refers to the Federal Fair Labor Standards Act as to whether you=re covered or exempt; "covered" meaning that employers must pay employees time and one-half (1 2) if they work overtime.

Senator Stegner discussed "nonclassified" in Idaho Code '67-5303 and commented that 30 years ago the state was roughly behind market 14-15% and the analysis provided to the CEC Committee this last legislative session (2005) showed that the state was now behind market 14.2%, which would indicate that all of this examination has not resulted in any improvement in the attempts of the state of Idaho to bring policy up to market.

Jay Anderson, Division of Human Resources, explained that the intent of any job evaluation system such as Hay is to determine the relative value of one job against another within an organization or company. The idea is to measure the job and not the person in the job and to measure what that job is worth in the organization when the employee is working at an acceptable level of pay. Mr. Anderson said the Hay System has 3 major factors, and each of those factors has dimensions or sub-factors within it; under Aknow-how@ they try to measure knowledge in three different areas: (1) specialized, technical or practical knowledge (2) managerial knowledge and (3) human relations.

Senator Kelly asked if the Hay System in combination with market factors is still used in the private sector at this time. **Mr. Anderson** responded that yes, it is, but market data has become more readily available and computers can be used to massage that data, so companies have been less inclined to go through all of the work and analysis that is required to arrive at the points for the Hay system.

Senator Stegner gave a hypothetical example using nurses who have specialized skills and are in short supply; consequently the market price goes up for nurses, and if there is no adjustment made by the state, then the state vastly underpays nurses which results in rapid turnover. This is not the same issue as the state being 14.2% behind market in policy; this is a separate issue dealing with a special job classification. What is the process the state uses to identify that shortage with a particular problem to reevaluate whether the job classification pay grade is correct? If that is recognized by the state and there is a decision to address it, who makes this decision, what is the process for making that evaluation, and how rapid and flexible is the state in first identifying and then dealing with these kinds of problems? **Ms. Heilman** responded that the formal process is the annual salary survey. The informal process is having conversations with agencies who point out they cannot hire or that they are not at market. The difficulty is that some agencies have more flexible funding than others, so gaining consensus on the state needing to make this a budget issue becomes difficult.

Representative Ringo stated that the system is not working well now and expressed concern that there are individuals who work to meet expectations and lose buying power for their families year after year. If the state were to have a compensation schedule which increased by a certain percent, the only people who would be guaranteed an improvement in their salaries would be people who are making less than the new minimum, and asked if that was correct? **Ms. Heilman** answered that another problem the state faces is called compression; every time the pay schedule has been moved and the entry range moves up, those people are automatically given a raise; if there is not money for everyone else, the system bunches up at the entry area and it is very difficult.

Pam Ahrens, Director, Department of Administration (ADM), addressed benefits for state employees. She said ADM is charged with management of health insurance coverage for state employees and retirees. **Ms. Ahrens** stated that total enrollment in the health plan totaled 45,638 employees, retirees and dependents (as of June 30, 2005). Employees numbered 18,307 (includes classified, nonclassified, all employees eligible except for the University of Idaho and dependents); employee dependents, 22,751; retiree dependents 1,443; retirees 3,137. The number of employees has remained about the same from 2004 to 2005 although the number of retirees and dependents has risen.

Ms. Ahrens said benefit programs managed by ADM in FY 2005 in premium payments were medical, dental, life/disability and supplemental life. The state pays 80% of the total premium cost of all these employee benefits. For the state medical program, the state pays 90% of the active cost. The state pays 44% of employees' dental coverage. The totals of these four programs were as follows: The state paid $123,521,161; employees paid $17,913,723; retirees paid $13,243,197. The total medical premiums paid were $138,059,902; dental $8,181.631; life/disability $7,376,401 and supplemental life (paid for by employees) was $1,060,147. The total premium cost for all the above benefits for FY 2005 was $154,678,081. Approximately 2,600 employees or about 14% of those eligible do participate in the flexible spending account program.

Ms. Ahrens explained that the amount of claims for every dollar showed that 94 cents or 94% goes to paying hospitals, doctors, prescription drugs, other medical and dental services; retention (administrative costs) was 4.6%; premium tax totaled 1.4%. She next discussed what the Governor and the legislature have done over the years to continue to fund health insurance coverage. The coverage has pretty much stayed the same but there have been changes in deductibles, in co-pays for prescription drugs and increases in the stop-loss, which is fairly high (it is $4,300 for traditional and $3,700 for PPO) and after an employee pays the 80/20% then it kicks in at 100% of coverage. The total cost to the state for health insurance per employee is $7,510 (medical insurance $6,825, mental health $95, dental insurance $205, and life/disability $0). **Ms. Ahrens** stated that also built into the state's premium rates and costs are the retiree subsidies that the state is required by statute to provide or assist in providing retirees ($8/FTP per month by the state and an employee puts in $8 per month).

Senator Andreason asked if it appears that employees are more satisfied with Blue Cross; are they happier? **Ms. Ahrens** answered that ADM has had very few complaints; she believes that the employees really like the PPO plan, the $20 co-pay, they like the option provided between the PPO and the traditional, and the PPO has been a plan that the employees really seem to enjoy.

Senator Compton asked if the state has a modified self-funded program. **Ms. Ahrens** said essentially, yes.

Senator Compton asked about patient savings accounts and if the state was moving in that direction? **Ms. Ahrens** answered that ADM is looking at options for the next fiscal year and that there would be health savings accounts. Actuarially, ADM is not sure how sound patient savings accounts would be, since they are predicated upon buying a very high stop-loss coverage. ADM could run the actuarial numbers again.

Senator Compton concluded by saying that the whole concept behind this is to make the consumer more conscious of what services cost so that they avoid going to an emergency room unless for extreme emergencies. He suggested using a test group in one part of the state perhaps to see how it would work since there are large corporations moving in this direction. **Ms. Ahrens** pointed out that the state employees are ten years older than most of those large groups who were trying this patients savings account concept, and what is needed for the insurance to work is for the healthy people to be involved, and that is one of the concerns, in the long run.

Representative Schaefer asked about the subsidy to retirees by both the state and active employees at a cost of $8 per month, and asked how long that had been in place. **Ms. Ahrens** said this had been the case since she has been the Director, which was in 199, and was in place prior to that. Active employees share contributions with the state to try to minimize the impact upon retirees and their health coverage. **Representative Schaefer** asked ADM to provide the date when that actually started because he is troubled that retirees are being subsidized by active employees.

Senator Andreason reiterated that state employees on an average are about ten years older than most groups, and asked how long this has been the case, or if this was a recent phenomenon. **Ms. Ahrens** responded that she did not know, adding that you cannot take out of consideration the baby boom age is coming through the system all over and where they are employed is another issue.

Senator Andreason commented that he had talked to a number of employees who said they are not going to retire because of the huge increase in health care that would result, and asked if this was becoming common. **Ms. Ahrens** responded that anecdotally ADM has heard about lots of people that are continuing to work to pay for their health insurance coverage. Unused sick leave available in individual accounts can be used toward paying medical premiums; ADM is working with PERSI, to try to level out that impact to retirees who are not yet Medicare eligible by allowing them to pay their medical premium with a portion of unused sick leave and some from their pension.

Representative Roberts asked about the number of active enrollees dropping from approximately 43,138 down to 41,058 during the course of 3 or 4 years. Is there a corresponding reduction in the number of FTE=s over those same years for state employees, or what would cause the actives to go down, and is this based on eligibility? **Ms. Ahrens** said this was an excellent question and ADM could find the numbers for the committee and try to do a parallel chart, so they could see the percentage of employees who are signing up for health insurance coverage.

Senator Stegner asked if the retirement retiree subsidy was based in statute? **Ms. Ahrens** was not sure, but that it has been in place for quite some time, and offered to do research on the subsidy portion.

Senator Stegner asked if ADM does any analysis of the private sector and the changes gone through and reductions in actual medical coverage. **Ms. Ahrens** answered that there are many reports out about coverage in the private sector, but some of that information becomes difficult

to obtain because corporations do not want it made public. A better comparison may be how much private sector employers pay per employee for health insurance, and this is information ADM can acquire.
Senator Compton asked ADM to research South Dakota and other states that have passed cost-of-procedure legislation because legislators in South Dakota think this has already saved $2 million per year.

Senator Kelly commented that the state administers our benefits programs in a separate location than compensation and personnel program and asked if it had always been that way, and if this causes problems. **Ms. Ahrens** responded that 1997, when organization changes were made in state government, is when all the insurance coverage was centralized with ADM for insurance management, because insurance management concepts are different than personnel issues.

Senator Compton asked if the state has anything creative to direct employees in the form of reward or punishment which would encourage early preventive tests. **Ms. Ahrens** answered that part of the benefit enhancement that came when the state changed to Blue Cross, was that their plan provided more wellness benefits, so that these visits would be covered.

Alan Winkle, Executive Director, PERSI, was introduced and began his presentation by stating that PERSI's actuarial evaluation will not be completed until October, 2005, and will reflect the impact of the past fiscal year at that time. PERSI covers virtually all state and local governments with the exception of some counties and a few small cities; the state is mandated in by law, and schools as well, which accounts for 70% of PERSI's membership in terms of employees. There are currently 680 employer units (state employees 14%, schools 20%, cities 21%, counties 6% and miscellaneous 39%). PERSI's retired members total 26,043 and grew in 2004 to 2005 by 1,000 and there may be even more in FY 2005; the average annual benefit is $11,804; the average age is 72.4 years old; the average age at retirement is 61.2 after an average 17.3 years of service and the annual payroll is $307,410,000. Retirements will increase as we go forward according to projections. Active PERSI members who pay into PERSI total 63,385. That is what drives the benefit and $33,510 is the average annual salary. The average member is 45.9 years old with an average of 10.2 years of service.

Mr. Winkle discussed actuarial valuations, cost of living adjustments (COLA), contribution rates and cash flow projections. As baby boomers come through the system, contributions will remain level as long as the market stays with us, and those assets will be drawn to pay benefits from the pool, which is how it works. He stated that PERSI's Choice Plan (401k) statistics show 27.6% growth since last year and plan assets total $177.68 million as of June 30, 2005.

Senator Stegner asked if all the unpaid COLA additions are caught up now. **Mr. Winkle** answered that PERSI is at 100% of purchasing power for retirees.

Senator Andreason asked how unused sick leave is used for purchasing health insurance. **Mr. Winkle** said there are two parts to this program and he only addressed the state side; schools have a similar one. The state plan provides that one-half the cash value at time of retirement can be converted to pay for medical insurance premiums for plans that are sponsored by the employer, and this is a tax-free accumulation. The state has a limit of 600 hours; schools have no limit, and there has been dialogue on this for years as the cost of medical insurance goes up.

There has been actuarial analysis on what it would take to remove that 600 hour cap.

Representative Roberts asked if the PERSI board considered at a point in time increasing reserves based on the number of retirees coming up. **Mr. Winkle** responded that the fund reserves for paying benefits to PERSI=s beneficiaries hit equilibrium at 100% funded. **Representative Roberts** discussed gain sharing and asked if there was anything in statute that specifies how much should be charged in lesser premiums if there is a gain, or if that was up to the board? **Mr. Winkle** responded that the law provides that the contributions for the employees will go into a 401k Choice Plan and retirees will receive a one-time COLA; the amount and the distribution (what percent goes to whom) is the board=s decision.

Senator Compton asked **Ms. Ahrens** about the cost the state spends per employee; he asked for a breakdown on that for pharmaceuticals, how that is tracking and what the state is doing to encourage use of generic drugs. **Ms. Ahrens** will get this data for the committee, commenting that the co-pay is three-tiered.

The meeting on July 25, 2005 was adjourned at 5:05 p.m.